

STATEMENT BY

DEPUTY UNDER SECRETARY OF DEFENSE

(ACQUISITION REFORM)

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ON

ACQUISITION REFORM

BEFORE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

UNITED STATES HOUSE OF REPRESENTATIVES

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We live in changing times. Never has this statement been more appropriate than it is today. Why? Because despite having built the best weapon systems in the world, (thanks to the ability and dedication of the people in DoD and industry who were able to achieve this success not because of the system, but in spite of it), the foundation upon which our national security strategy has been built is being shaken to the core. Our world has changed dramatically -- so much so that we are no longer amazed at changes that would have been unthinkable even five years ago.

DoD, as an enterprise, must respond to these changes in every facet of how it accomplishes its mission -- and the acquisition system is no exception.

I appreciate the opportunity to be here today to explain why the continuous improvement of the acquisition process that has been occurring within DoD on an ongoing basis is no longer sufficient; why we must now totally reengineer the system; why we must be even bolder in our efforts to facilitate the merger of the defense and commercial industrial bases, improve the responsiveness of our acquisition system, and reduce its cost. I also appreciate the opportunity to explain some of our accomplishments to date and a number of our on-going acquisition reform efforts.

Why is it imperative to reengineer the acquisition process now? Because the acquisition process must be able to respond to the external changes in the world. DoD faces new national security challenges, a drastically reduced budget, reduced influence in the marketplace, and technology that is changing faster than the system can respond -- and that technology is available to the entire world. We must design an acquisition system that can get out in front of these changes instead of reacting to them.

- First of all - the new security challenges. You all are very aware of the fact that we face a situation of mostly regional or limited conflicts that are often unpredictable in nature. We must be concerned about proliferation of weapons of mass destruction - both nuclear and non-nuclear. We must be concerned about the possible failure of democratic reforms in the former Soviet Union. And, we are increasingly called upon to support new missions -- humanitarian in nature, and dwarfing previous Cold War efforts such as the Berlin airlift.
- Yet, this is the 10th year of a declining defense budget. Our overall budget has been reduced 40%, but our procurement accounts have been reduced over 65%, and as we downsize, we take our most modern equipment and give that to a smaller number of troops. That has a cascading effect, so that by the time we're done, we've essentially eliminated old inventory and modernized our remaining forces at the same time. We are at the point now, however, where we have to spend the capital to start investing in modernization if we are to maintain our technological superiority.

- Improvements in technology now predominantly occur in the commercial sector -- at a pace our acquisition system cannot keep up with. If we are to have access to this advanced technology, we must be able to buy from commercial suppliers, who are more often than not, unwilling to change their business practices to comply with government unique requirements for actions or activities. We're just not a big enough market to make it worth their while.
- Even if we can figure out a way to purchase such products, the length of our acquisition process is such that the technology is often outdated by the time we acquire it. It's no surprise to any of you, I'm sure, that our acquisition process simply is not designed to allow us to acquire products at the pace at which technology is changing. For example, information systems technology turns over on an average of 18 months, yet, not using small purchase procedures, but a simple Invitation for Bids, takes us an average of 90 days. A negotiated procurement, takes an average of 210 days, and a complex services contract to support one of our program management offices takes an average of 300 days. We can't even get on contract before technology is obsolete.
- In addition, we must remember that our national security strategy is founded on the precept that we will maintain technological superiority rather than numerical superiority. We've been able to do that in the past because we have been the leader in technology. The fact of the matter is, however, with our reductions in defense spending and other world changes, the majority of technological development is happening in the commercial sector. And it is increasingly available to the entire world. The building blocks that make up our major weapons systems are primarily electronic in nature, and that electronic capability is too easily spread around the world. Our past strategy of being able to keep technology a secret, and therefore have this advantage over our opponents, is no longer a viable strategy. The key to winning the technology war today is to be the first to integrate. The first to be able to integrate the technology that is already out there is the one who will maintain the superior force.

Because the nature of this situation is so unpredictable now, the acquisition system must be even more flexible and agile than it was in the past. Because of the decline in the budget, affordability rather than performance of systems becomes paramount when making those critical tradeoffs between cost, schedule, performance and reliability. Because DoD cannot maintain the infrastructure that we have had in the past - the "tooth to tail" ratio that you hear about all the time - we can no longer support a defense-unique industrial base. We are going to have to rely on commercial and dual-use suppliers who can meet DoD's needs.

Finally, over the years many laudable restrictions and requirements have been added to the acquisition process to ensure it is fair, prevent fraud waste and abuse, to standardize treatment of contractors, to ensure that the government receives a fair and reasonable price when buying products that are not competitively available, to

check the government's demands upon its suppliers, and to further socioeconomic objectives. The problem is that all of these demands, while valid goals of our acquisition process, encrusted upon each other have become a reef that surrounds the Pentagon, and most of our federal government -- almost challenging suppliers to find a way to penetrate the reef without risking everything. That reef poses a particular barrier to the acquisition of commercial products and state-of-the-art technology, and increases our costs.

In addition, our internal DoD acquisition systems and acquisition organizations evolved over time. But they have not been able to keep up with changes in the world around us. They are designed to respond to a different time and purpose. Essentially, what we have is an industrial-era bureaucracy that was created and was responsive to the needs we had in the past -- a very hierarchical structure, with minimal cross-training requirements because we set out to make people experts in certain areas. We are now learning that when competition is based on time, not efficiencies of scale, that we can no longer keep that type of management structure -- we have to break down the walls. We have to, for example, use integrated cross-functional teams, because the hand-offs that occur between functional experts inherently cause errors and waste time. Time we can no longer afford.

Probably the biggest problem we face, however, is that the system now has few, if any, incentives for acquisition personnel to be innovative or to take reasonable risks. If I had to identify any one critical problem that we must solve as we go through the process of acquisition reform, it is the lack of ability to reward and provide incentives for people to make judgments and to take reasonable risks -- because our risk-averse system right now is killing us.

The price we are paying to make sure that our system is perfect, and to promote social goals in every one of our contracts, is too high. No, we do not want to abandon these goals. We cannot abandon those goals because they are valid goals of the federal procurement process that we as a nation are committed to supporting. But what we must do is better balance the costs of achieving those goals with the achievements that we gain from pursuing them through most procurement efforts. And above all, we cannot lose sight of the fact that the acquisition system is not an end in itself - that it was created to serve a purpose: to meet the warfighter's needs.

What are we doing to try to change this process? First of all, we've set out as our vision for acquisition reform that the DoD will meet warfighter's needs as the world's smartest buyer of best value goods and services, efficiently and on time, while maintaining the public trust and supporting the nation's socioeconomic goals.

How are we, and will we, execute this vision? First of all, the Secretary of Defense established my office -- the Office of the Under Secretary of Defense for Acquisition Reform, to be a focal point and a catalyst for the development of a coherent and practical step-by-step plan to reengineer the acquisition process while focusing on

implementation and institutionalization of the reforms. My office has been kept small on purpose -- so that we are forced to rely on Process Action Teams of individuals from the field - experts who know what it is to buy on a day-to-day basis, and know what it's going to take to make the system right.

We have successfully utilized Process Action Teams to develop implementation plans to change the acquisition process on five very difficult issues. People have come together from all over the country. They have worked through the process of team building and spent 3, 4, sometimes 5 months together trying to work out recommendations and implementation plans, and they've done it in a way that will identify metrics of success so that we have measurable goals and ways to achieve them. They have identified the road map to get us there, as well as the disincentives in the existing process that are inhibitors to making change.

I am advised by a Senior Acquisition Reform Steering Group, made up of representatives of various affected offices in OSD, the Services, Defense agencies, the IG, and DCAA - all of whom are essential to the process of acquisition reform. These are the "stakeholders," and everyone of us must work together to implement these reforms and achieve these goals.

I would now like to describe these goals. Our specific objectives associated with them, and the actions we have, or are planning to undertake to accomplish these goals.

We have already instituted recommendations of a Process Action Team on specifications and standards reform. On June 29, 1994, Secretary Perry directed DoD to use performance specifications beginning December 26, 1994. If a performance specification cannot meet the user's needs, then a nongovernmental standard may be used. If a nongovernmental standard will not ensure that you can meet your user's need, then you may use a MILSPEC, but only after you have received a waiver from the milestone decision authority. So, depending on what ACAT level program it is, you're going to go up to the MDA at that level. The only things that are excluded from the waiver process, even though the underlying philosophy applies, are basically spares and reparable. And we're looking at ways to address those issues as well, so that we affect many of our current systems.

In terms of improving how we buy, one of our major focuses has been the adoption of commercial practices to acquire not only commercial items, but military-unique items. We approved regulatory waivers for the JPATS program, the JDAM program, some DPSC procurements, commercial derivative engines, commercial derivative aircraft, and a few Army lead programs. We've got really two types of programs that we're working: that is we're working "pilot" programs, which we have used to refer to those programs that need not only regulatory waivers, but also statutory waivers if we are to buy using commercial practices; and then what we call "lead" programs - those which require really only regulatory waivers and don't require any statutory changes.

The Federal Acquisition Streamlining Act of 1994 granted the statutory waivers, but it wasn't as early as we had hoped, and many of the programs had already gone to contract award. They're now going through the process of trying to see what changes can be made in the programs to streamline them further and to allow the contractor and the government to save some money by utilizing commercial suppliers to a greater extent.

Another of our goals has been to improve the Service and OSD milestone decision making and information collection processes for major systems - a long winded way of saying the Defense Acquisition Board process - the oversight and review process that every program manager has to go through in order to get his program approved at the OSD level, or for that matter, the Service level.

We commissioned a Process Action Team that made a number of far reaching and very provocative recommendations in terms of changing the existing way in which we review programs. Its report is now being coordinated throughout DoD. We have just finished assimilating the comments of the Steering Group. My office will make a recommendation on them, along with the Acquisition Reform Senior Steering Group, and we expect those recommendations to go up to Secretary Kaminski in the next few weeks. We will then meet with Dr. Kaminski and the Service Acquisition Executives in what will probably be about a 2- to 3-hour meeting to see if we can resolve some of the outstanding issues and concerns about some of these recommendations, and determine which ones can be implemented immediately.

We are trying to adopt internal best practices of world-class customers and suppliers/ and the way we identify the best mechanism to reach that goal is to pursue legislative change. In the Federal Acquisition Streamlining Act, we received I would say 95 percent of what we needed to be able to make all of the changes necessary so that DoD can, in fact, become a world-class customer and supplier. We focused in that statute on two primary objectives:

1) Increasing the small purchase threshold to \$100 thousand so that we could use simplified procedures for 99 percent of our contract actions, which by the way account for only 16 percent of our dollars, freeing up our well trained contracting officers and senior buyers to work on that 1 percent of our contracts that encompass 84 percent of our dollars. The savings there, as you can imagine, are phenomenal. And we are pursuing that - we did get relief. It is tied to the implementation of a Federal Computer network. Suffice it to say, we were very happy with the statutory changes.

2) The second objective in crafting FASTA as focused on removing government-unique laws and regulations from the acquisition of commercial products, and that includes our "pilot" programs, which have been deemed commercial products for purposes of the statute. Now we're looking at further changes as a result of other

Process Action Teams. The procurement Process Action Team, which has been working for the last 3-1/2 months, recently reported to the Acquisition Reform Senior Steering Group on the items in disagreement - the recommendations that various services, etc., had reclama'd on and had objected to. They have briefed Dr. Kaminski and received his endorsement on their recommendations. We also have a Contract Administration Team whose recommendations have just now gone out for comment, and we expect to see those back within a couple of weeks, and we'll be taking those to Dr. Kaminski as well.

In the Contract Administration arena, I think it's easy to encapsulate exactly what we're trying to do here by just saying that we need to move from inspection to process control. We need to be out of the business of inspecting products and contractors, period. We've taken a lot of actions already this year to enhance that process. One of the things we've found is we just completed a study - the first empirical study or verifiable study - of what it costs to do business with the government looking at firms who do both commercial business and government business. What was the delta difference in terms of the processes and procedures they have in their plan? That study was conducted for us by Coopers and Lybrand and The Analytical Sciences Corporation. They concluded through an activity-based cost accounting assessment that 18 percent was the price differential we were paying - value-added cost at the prime contractor level. The difference between what the commercial sector was paying for essentially the same product. The reasons for that: No. 1 on the list is MILQ 9858a, our quality assurance standard. Why? Because the requirements imposed by this document are different from anything the contractor utilizes in his commercial division.

No. 2 was the Truth in Negotiations Act, because it requires contractors to maintain accounting data based on cost for every product. Commercial companies do not track their costs on a product-by-product basis; therefore, all of the costs of creating that accounting system are added costs. Now, knowing what it costs the contractor to build the product is helpful when we're negotiating in a sole-source environment, but it doesn't guarantee that we're getting a fair and reasonable price, because that contractor could be totally inefficient. What we are trying to do with the changes as a result of FASTA, and we have these out on the street right now for public comment, are changes to the regulations and the Truth in Negotiation Act, to establish that what is critical is a determination of price reasonableness. And contracting officers should go through a step-by-step process of trying to determine price reasonableness without requesting cost and pricing data. That is the last alternative that we want pursued because that is the most costly to the government, to industry, and is one of the biggest inhibitors to companies selling to the U.S. Government.

Another thing that we're doing is expanding the use of integrated decision or integrated product and process development teams; and we're looking at this, not only from the standpoint of a program management office or a program structure, but also in terms of the DAB oversight and review process. OSD staff members, who

typically, in the past, have been the ones that the program manager confronted 6 months prior to the DAB, are now involved in the process up front. They are a part of the team with the program manager and are sitting in on all the Service Reviews, etc. Now we've just started that, but I think it's probably one of the most positive steps that has been taken. It doesn't preclude that staff individual from giving the Under Secretary of Defense (Acquisition and Technology) an independent assessment of the program at some later point in time. What it does is ensure that at least that his issues and wisdom are raised as you go through the process. And I would almost put a caveat on it to say that no one in OSD can raise an issue if they have not brought it up to the program manager's attention prior to the time when that program comes up for a DAB.

We're also trying to ensure is that, as a part of the team, anyone who is in the oversight and review process is in fact part of the team and as a result, they bear responsibility for decisions made by the team. No longer will we have a situation where a program gets into trouble, comes up to the Secretary's level, and the OSD staff says, "not us, we didn't have anything to do with it. The Program Manager has full responsibility and accountability." That's a farce, and I think you all know that. There are so many outside variables that impact on management of a program, including congressional, budget - all of which the program manager has no ability to control - that it is totally unrealistic to say that the program manager has total authority and responsibility for the program. And we need to quit putting on them and placing on program managers responsibilities since we aren't able to give them total authority.

In conclusion, we are in an environment of change. And the fact that we are going to have to accept that change is now a given, rather than the exception. Many people have said that you cannot reorganize or reengineer an entity or enterprise unless it reaches the crisis stage. We in DoD are at that crisis stage. We simply cannot continue to conduct business the way we have in the past. We won't have the people to do it; we don't have the money to do it; and every dollar that we spend on that infrastructure is a dollar that we lose in terms of a person out there in the field with the proper equipment to do their job.

Think about the Chinese symbol for crisis. It is actually two brush strokes: one danger, and the other opportunity. We count on your continued support as we press forward to make the changes we all know are necessary to maintain the best military in the world and reduce the costs of our equipment and the procedures to buy it.

Thank you very much. I'll be happy to answer any of your questions.